

## SAMPLE OF FR-23

FR-23  
(R3/90)

Division of Retirement  
Cedars Executive Center, Building C  
2639 North Monroe Street  
Tallahassee, Florida 32399-1560  
(904) 488-6491

### NOTIFICATION OF REEMPLOYMENT FOR SUSPENSION OF RETIREMENT BENEFITS

Name: \_\_\_\_\_ Retirement Date: \_\_\_\_\_ SS#: \_\_\_\_\_

Your retirement will be cancelled if you are reemployed in any capacity with any FRS employer during the first calendar month after your retirement date. Employment with any FRS employer during the second through the twelfth calendar months after your retirement date will result in the suspension of your retirement benefits for the months you are employed. Prohibited employment includes full-time, temporary part-time, other personal service (OPS), and contractual services.

[Exceptions for FRS retirees are outlined in Section 121.091(9), F.S. Exceptions for TRS retirees are outlined in Section 238.181, F.S.]

#### PART ONE (To be completed by retiree)

I was employed, or will be employed, by \_\_\_\_\_ on \_\_\_\_\_,  
(Name of Employer) (Date)

which is within 12 months of my retirement date. Therefore, I request that my benefits be suspended. I will submit a completed Application to Resume Retirement Benefits Form, FR-23a, when I am eligible to have my benefits resumed.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_ Phone #: ( ) \_\_\_\_\_

Address: \_\_\_\_\_

IF INSURANCE DEDUCTIONS ARE BEING MADE FROM YOUR RETIREMENT PAYMENT, ADVISE YOUR INSURANCE COMPANY THAT YOUR BENEFIT HAS BEEN SUSPENDED.

#### PART TWO (To be completed by employer)

I certify that the above retiree

( ) a. has or will have prohibited employment with this agency as a \_\_\_\_\_  
(title or position held)

effective \_\_\_\_\_  
(Date)

( ) b. has had employment as a \_\_\_\_\_ in a position exempted from  
(title or position held)  
reemployment limitations and has or will have reached the 780 hour limitation on

\_\_\_\_\_  
(Date)

Agency: \_\_\_\_\_ Phone #: Suncom # \_\_\_\_\_ Local #( ) \_\_\_\_\_

Date: \_\_\_\_\_ Signature: \_\_\_\_\_ Title: \_\_\_\_\_

Distribution: Original - Division of Retirement Copy - Retiree

**Exceptions to  
Reemployment  
Limitations**

After a retiree has been retired for one calendar month, work may be performed without suspending benefits for 780 hours during the remaining 11 months, if he is covered by one of the exceptions listed below:

- **FRS and TRS** retirees may be reemployed by district school boards as noncontractual substitute or hourly teachers.
- **FRS and TRS** retirees may be reemployed by community colleges as part-time, noncontractual adjunct instructors.
- **FRS** retirees may be reemployed by community colleges as participants in the phased retirement program.
- **FRS and TRS** retirees may be reemployed by the State University System as adjunct instructors, or as participants in the phased retirement program.
- **FRS and TRS** retirees may be reemployed by the Florida School for the Deaf and the Blind as substitute teachers, substitute residential instructors, or substitute nurses.
- **FRS** retirees may be reemployed by district school boards as teacher aides, transportation assistants, bus drivers and food service workers on a noncontractual basis (i.e., without a guarantee of employment).

The retiree must notify his employer and the Division in writing of the date on which he will complete 780 hours of employment. If a retiree is employed in any of the above positions for more than the 780 hours allowed during the 2nd through 12th months after retirement, benefits must be suspended until the end of the 12th month or until work has stopped, whichever occurs first. The retiree must repay any benefits received after exceeding the 780 hour limitation during the 11-months period. Retirement benefits will remain suspended until repayment has been made. The retiree is responsible for payment of health insurance or any other payments that would otherwise be deducted from the retirement benefit during the period of suspension.

If a retiree is considering employment as an independent contractor with an FRS employer during the 2nd through the 12th months after retirement, the Bureau of Enrollment and Contributions should be contacted prior to beginning the employment to verify that the retiree will be considered an independent contractor and will not violate the reemployment provisions. See page 1-48 for further information on independent contractors.

**Elected officers with renewed membership in the ESCOC or the Regular Class (if not eligible for membership in the ESCOC) are exempt from the reemployment limitations.**

<b>All Retirees (Except ESCOC Members)</b>	<p>Effective July 1, 1991, a retiree reemployed in a regularly established position will be enrolled as a renewed member of the Regular Class and earn service credit toward a "second-career" retirement benefit. The renewed member must accumulate an additional 10 years of creditable service to be eligible for this "second-career" retirement benefit. Renewed membership service in the ESCOC can be used toward a second-career retirement in the Regular Class. The renewed member may purchase credit for service performed in a regularly established position after his first retirement and before July 1, 1991 and apply it toward the second benefit. This post-retirement service may be purchased by the renewed member or his employer. The cost to purchase this service may be requested on <i>Form FR-9, Information Request</i>, which should be submitted to the Bureau of Retirement Calculations. If the request includes service performed prior to July 1, 1985 in a regularly established position, a certification of the positions held and a certification of monthly earnings must be submitted along with <i>Form FR-9</i>.</p> <p>To qualify for a "second-career" retirement benefit, the reemployed retiree must complete at least 10 years of creditable service, which may include service in a regularly established position that was performed <b>after</b> the first-career retirement date and <b>prior</b> to the renewed membership date. For more information on claiming this post-retirement service, please see page 7-23.</p> <p><b>STATUTORY REFERENCE:</b> Section 121.22, F.S.</p> <p><b>FRS RULE REFERENCE:</b> Section 60S-1.0045 and 4.012</p>
<b>Calculation Of Benefit</b>	<p>"Second-career" retirement benefits are calculated using the same formula as first-career service retirement benefits (Years of Service X Percentage Value Per Year of Service X <u>Average Final Compensation</u>). The "second-career" benefit is calculated independently of the first-career benefit. Only the service and salary earned during the "second-career" will be used in the calculation of the renewed membership benefit. If the renewed member has not reached age 62 or earned 30 years of service in the "second-career," the benefit will be reduced 5% for each year under age 62.</p>
<b>Application</b>	<p>To apply for a "second-career" benefit, the member must complete <i>Form FR-11, FRS Application for Retirement</i>. A retirement option must be chosen and a <u>beneficiary</u> designated, which may be different from the member's first-career retirement option and beneficiary.</p>
<b>Health Insurance Subsidy</b>	<p>If the renewed member is not already receiving the maximum HIS with the first-career benefit, the member will be eligible for an additional HIS up to the maximum based on combined first- and second-career service. The total HIS of both benefits may not exceed the maximum of \$90 a month.</p>

## REEMPLOYMENT AFTER RETIREMENT

After you retire under the normal or early retirement provisions of the Florida Retirement System (FRS), Teachers' Retirement System (TRS), or any other existing retirement system that was merged into the FRS; you may work for a private employer, any public employer not covered by the FRS, or in another state, without affecting your retirement benefit. (Your Social Security benefit may be affected. Contact the Social Security Administration at 1-800-772-1213 for specific information.) If you retire under the FRS disability provisions, you may not be gainfully employed and still receive FRS disability benefits.

There are, however, certain reemployment limitations that affect employment with employers who participate in the FRS. You and your employing agency will be held jointly and severally liable for repaying to the FRS Trust Fund any retirement benefits you receive in violation of these reemployment limitations, plus interest. If you are reemployed with an FRS agency, you may be required to sign a statement that your reemployment does not violate these provisions. The limitations on reemployment with FRS employers are as follows:

- If you return to work during the first month of your retirement you **will not** be considered to have retired. Your retirement application will be **void** and all retirement benefits must be repaid.
- You may not receive both a salary and retirement benefits for 12 months after your effective retirement date.
- If you work during the first 12 months after your effective retirement date, you must inform the Division of Retirement. Your retirement benefits will be suspended for the months you are employed during the 12-month

period. Any retirement benefits received while working during the first 12 months after you retire must be repaid.

- There are no limits on working for an FRS employer after you have been retired for 12 months.

The following provisions are exceptions to the law restricting reemployment with FRS employers during the first 12 months after your effective retirement date:

1. Up to 780 hours of reemployment is allowed during the 2nd through the 12th months of retirement for:

- FRS and TRS retirees reemployed as noncontractual substitute teachers or hourly teachers with district school boards.
- FRS retirees reemployed as substitute or hourly teacher aides, transportation assistants, bus drivers, or food service workers with district school boards.
- FRS and TRS retirees reemployed as part-time, noncontractual adjunct instructors with community colleges.
- FRS retirees reemployed by community colleges as participants in the phased retirement program.
- FRS and TRS retirees reemployed as participants in the phased retirement program or as adjunct faculty with the State University System.
- FRS and TRS retirees reemployed as substitute teachers, substitute residential instructors or substitute nurses with the Florida School for the Deaf and the Blind.

If you are employed in one of the above excepted positions for more than the 780 hours allowed, you must advise the Division. Your retirement benefits will be suspended for the months you continue to work during the 12-month limitation period.

2. Elected officers with renewed membership in the ESCOC or the Regular Class (if not eligible for membership in the ESCOC) are exempt from the reemployment limitations.

#### **RENEWED MEMBERSHIP AFTER RETIREMENT**

All retirees who are reemployed in regularly established positions (except those elected to a public office covered under the FRS) will be enrolled in the Regular Class of the FRS and earn service credit toward a "second-career" retirement benefit subject to the following:

- A reemployed retiree must earn an additional 10 years of creditable service to be eligible for this benefit.
- Post-retirement service (service performed after the first retirement and before July 1, 1991 in a regularly established position) may be purchased by the reemployed retiree or his employer for second-career retirement credit.
- Service performed prior to the first retirement may not be used in the calculation of the second-career benefit.

If, after you retire, you are elected to a public office covered under the Elected State and County Officers' Class (ESCOC), you will be enrolled in that class of the FRS. For more information on the ESCOC, you may request the ESCOC handbook from the Division at the address on page 4.

**NOTE:** Renewed members are not eligible for disability benefits and are subject to the reemployment limitations outlined above.

#### **HEALTH INSURANCE SUBSIDY FOR RENEWED MEMBERSHIP RETIREES**

If you retired with less than 30 years of service in your first-career retirement, upon your second-career retirement, you may use part or all of your years of service from your second-career to increase your health insurance subsidy (HIS) payment. The maximum number of years you are eligible to include in the calculation of your total HIS payment is 30 years.

After your name is added to the retired payroll, an application for the health insurance subsidy, *Form HIS-1*, will be mailed to you. See page 7 for more information on the HIS program. Contact the Disbursements Section if you are not sure if you qualify for increased HIS payment based on your second-career retirement.

### **REEMPLOYMENT FOR DISABLED MEMBERS**

A member who retires on disability may not be gainfully employed and receive disability benefits. Therefore, if you recover from your disability and return to work for any employer, you should inform the Disability Determination Section immediately to stop your benefits. If you return to work for an FRS employer for one continuous year of creditable service, you may purchase credit for the period you were retired on disability toward your subsequent retirement benefit.

### **SOCIAL SECURITY COVERAGE DURING REEMPLOYMENT**

Under most circumstances you will be required to pay Social Security contributions on salary earned during reemployment.

## **DISABILITY REEXAMINATION**

If you retired due to disability, we may check the status of your condition periodically. The Disability Determination Section will provide the forms to be completed and will pay for your reexamination. If your doctor charges for completing the report, the Division will reimburse you.

Once we have received the completed forms, we will write and tell you if you still qualify for benefits. If you do not qualify to continue receiving benefits, you may appeal the decision to the State Retirement Commission.



**EPC specializes** in developing, implementing and administrating early buy-out **incentive plans** for schools, colleges, universities, and municipalities.

The Early Buy-Out Incentive Plan Experts

1.800.747.

[Home](#)

[Contact Us](#)

[Feasibility Study](#)

[E-Newsletter](#)

[Effective Plans](#)

[Early Buy-Out Plans](#)

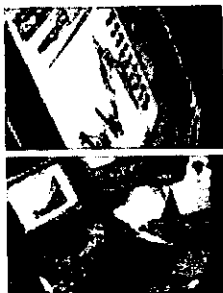
[News Articles](#)

[Client List](#)

[Teacher Recruitment](#)

[Related Links](#)

[Retirement Planning](#)



## A Guide to Early Buy-Out Plans

by Joseph D. Kelly, CFP

[I. The Planning Stage](#)

[II. The Plan](#)

[III. Implementing the Plan](#)

[IV. Managing the Benefits](#)

[V. Alternative Approaches](#)

[VI. Third Party Administration](#)

[VII. Total Plan Costs](#)

### I. THE PLANNING STAGE

**THE DECISION ...** There are several reasons employers consider offering employment termination incentives. The foremost reason is to bring salaries and wages into balance. Another important reason is to 'revitalize' the staff. A third reason is to reduce the total number of employees. It is not unusual to have all three of these objectives in mind when considering accelerated employment attrition. The decision to offer incentives to terminate employment, (whether early retirement, or early termination), requires several important steps, plus an understanding of how the offer will be perceived by those to whom it is offered. The offer must be considered as a meaningful benefit, above and beyond what has traditionally been thought of as a retirement incentive more on this most important element later in the manual). To offer an incentive without knowing in advance what the results will be is a sure way to not only lose considerable funds, but also to create unfavorable employee reaction, even to the extent of actually getting fewer exits than offering no plan! Thus, the decision must include an accurate projection of anticipated results. Also, it is necessary to know in advance what the re-staffing requirements will be if a plan is successfully implemented. It is necessary to know what the costs will be, and what staff replacements will be needed. A recruiting plan is recommended.

**COST VERSUS RESULTS ...** The question of costs must consider what would occur if a plan was not offered. A review of normal retirement and attrition will allow a projection of anticipated results. There are factors, which can change these projections dramatically, however. Such factors include, first year of a multi-year contract with an increase, or no increase in each year; last year of a higher salary rate of increase, change in extra duty, extra pay policies, restructuring of assignments, anticipated layoffs, to name a few.

If an offer is to be made, it must substantially increase the number of persons leaving employment. Thus, employees who did not plan to leave for five, six, even ten or more years must take a close look at the offer and a percentage of those



persons must accept the offer. An offer which is only accepted by persons who would retire in the next year or two simply "gilds the lily" of these employees at great expense to the employer.

Studies that assume only retirement eligible persons will consider the offer, and only those who would have retired in the next four or five years, often conclude that incentives do not save money. These studies do not agree with ten years of actual results based upon meaningful offers. The facts are, that there are always a number of persons who, given the incentive, retire or terminate employment much sooner than those encompassed in these studies. In fact, the actual results of over, eighty such plans show that over 50% of those accepting are under age 55!

**SUBSTANTIAL INCREASE...** A minimum target for positions to be vacated should, based upon the specific employee data, exceed 400% to 1,500% of normal retirements. Thus, if in a normal year four to five persons retire, a properly implemented incentive offering should attract a minimum of sixteen to twenty acceptances. Prior to offering the plan, the eligible pool must be determined. The employee data from the pool can be utilized to determine, within 97% accuracy, the actual final results of the offering.

[back to top](#)

## II. THE PLAN

**THE ELIGIBLE POOL ...** If maximum acceptances of the offer are a factor, the plan should be offered to a much larger pool than those who are "retirement eligible" only. A larger pool may be established in several different ways. If a series of "steps" in salary amounts are in place, those employees in the top step and above may be in the pool. There may be 65% to 85% of total staff in this category! Total specific years of service under the current employer may also be considered as the eligible pool.

**AGE DISCRIMINATORY PLANS...** Care must be taken to prevent the plan from discriminating as to age and sex of the employee group. A plan, which is determined to be discriminatory, can cause serious problems for the employer. Subtle nuances can cause the plan to be determined as discriminatory. Legal counsel must review the plan to insure that it is in no way discriminatory in its intent or application.

**THE WINDOW PERIOD...** For the majority of plans there are specific requirements regarding the time period allowed for the eligible employee to make a determination regarding acceptance of the offer. This period must be followed by a "cooling off" period, even if the employee accepts the plan. During this period, the eligible employee may change his or her mind and reject the offer, even though a formal resignation has been submitted.

**MULTIPLE WINDOW PERIODS...** More than one window period may serve to increase the effectiveness of the plan. It may be appropriate to have different window periods for different employee groups.

**COMMON TERMINATION DATES...** Termination of employment may be one

common date, or there may be two or more termination dates. The window period may be the same, as long as the required period for consideration and 'cooling off' are observed. Care must be taken to avoid confusion as to termination dates and requirements for eligibility for the optional termination dates.

**DOCUMENTS ...** The plan which is offered to the employee must be formalized with binding contracts. In addition, the employee may be required to waive certain rights in the future in return for the payment or payments he or she receives. The requirements for such documents provide that the employee shall have them for specific periods of time prior to close of a window period. Legal counsel must review the language and time requirements.

**TAX IMPLICATIONS ...** Tax treatment of plans vary with the type of plan offered. The eligible employee must have a clear and concise understanding of the taxation of benefits based upon the applicable tax laws. Income taxation and the method of handling and explaining of applicable tax requirements are very important in the success or failure of a plan offering. Legal review is always necessary.

[back to top](#)

### III. IMPLEMENTING THE PLAN

**PLAN ANNOUNCEMENT ...** Plan eligibility and details of the offering must be made available to all employees. In addition there are requirements for presenting information as to eligibility at various ages using employee data. Employees on disability, sabbatical, leave of absence, and layoff should also be included.

**GENERAL MEETING...** A general meeting, conveniently scheduled for employees and spouses at the beginning of the window period is important to the success of the offering. This meeting should include basic information on the plan, offered eligibility, important dates, resource material, and the reasons the employer is offering the plan. It is also important to explain the tax aspects of the plan as it may relate to total income. Schedules for individual counseling can be completed following this meeting. Spouses should be invited to this meeting, as they are usually an important party in making the decision to accept or reject the offer.

**INDIVIDUAL COUNSELING...** Each person who is eligible should be given the opportunity for a one-on-one, confidential counseling session. These sessions are one of the most important aspects of a plan offering. As a general rule, employees do not wish to discuss personal financial matters and/or other personal matters, which may be part of the decision process. Competent, confidential third party counseling can increase participation as much as 50% to 70%! Prior to the counseling session, personal financial data must be collected, analyzed and incorporated in a meaningful presentation for each employee counseled. It is strongly recommended that the total retirement income picture be included in the analysis. This enables the employee to compare pre and post income. Health, dental and other insurance information must also be included in these sessions. Counseling is often an overlooked area. Individual counseling requires the most planning and preparation in a plan offering, and is the single most important element for plan participation.

**FOLLOW-UP INFORMATIONAL SERVICE...** As employees consider the offering, invariably additional questions arise. Even after meetings, memos, and individual counseling, questions must be addressed. Specific directions for answering questions from employees, accountants, attorneys, financial planners, insurance agents, and other advisors must be maintained during the window period. A single, central location and phone number should be designated to answer all questions.

**AGREEMENTS, WAIVERS, BENEFICIARY FORMS...** The agreement and other related documents, including the beneficiary form (if applicable), depending on the nature of the offer, must have been in the hands of the eligible employee for the time prescribed by law. These forms, together with a letter terminating employment, must be signed and collected within the window period. Specific instructions for turning such forms into the employer must be given in clear language with date and time limitations spelled out. Each form should be date-time stamped to insure that they were received within the prescribed period. If the forms are mailed or delivered by someone other than the employee, notification of receipt of the form should be mailed to the employee. Once the date is established, exceptions cannot be made, as they could invalidate the window period and open the door for persons who decide too late to accept the offering.

[back to top](#)

## IV. MANAGING THE BENEFITS

**BENEFIT PERIOD REQUIREMENTS...** Benefit period requirements include: payment calendar, income tax reporting system, beneficiary procedures, death proceeds authentication procedures, beneficiary payment method, direct deposit of checks option, change of name and address forms, lost check replacement policy, check stop payment and replacement policy, account audit procedures, to name a few. Policies for the administration of the benefits must be clearly enunciated to the participants.

**TAX AND LEGAL AUTHORITY RESOURCE...** It is quite usual that tax and legal questions will arise during the benefit payment period. Such issues, which may have been explained during the enrollment period, nevertheless, must often be addressed again. In the early years, particularly at tax time of the year, inquiries can be expected from not only participants, but also, tax advisors, accountants, attorneys and financial planners. Applicable IRS code must be available to address such issues. The IRS may raise issues with participants regarding the taxation of benefits received by the taxpayer (participant). A system to handle all such issues and questions must be in place during the entire benefit payment period. Thus, ongoing administrative procedures can be for many years.

[back to top](#)

## V. ALTERNATIVE APPROACHES

**TOTALS COST VERSUS BENEFITS ...** Plan objectives, no matter how carefully developed, and do not just occur because the plan is offered. The plan offering must include a meaningful benefit, professionally presented, and individually interpreted and, must all fit together to achieve outstanding result.

The employer simply offering the benefit is the most prevalent reason for plan failures. There are many factors that only experience in offering and managing such plans can address. Setting aside the considerable legal aspects for the moment, let's examine the acceptance or rejection levels in the total process.

**The Superintendent..** As the responsible administrator to the board, the superintendent must not only have a complete understanding of the plan offering, but also the confidence that the results projected can be achieved. There must be agreement by involved administrators regarding the many facets of the offering.

The board must not only understand the financial aspects of the plan, but also the impact of the offering on the educational process. A clear statement of the plan objectives must be presented to the board, with complete details available for examination.

**Employee Bargaining Units ...** Incentive buy-outs may be considered a matter of wages and salaries, and as such require the approval of the bargaining unit. Thus, it is possible that such plans are part of the bargaining process. Often they replace, or at the very least supplement pre-existing retirement 'bonus' clauses in the contractual employee agreements. An enthusiastic acceptance of the plan by the collective bargaining team can be most helpful in achieving desired objectives.

**The Community..** Due to the major impact on the educational process, the interested community must also have a clear, concise, although perhaps not as detailed, understanding of the plan. The issue of the effect on the educational process will arise, and should be addressed from the onset in presenting the plan to those who participate in school matters on a regular basis, and those who will come forward when such a plan is presented. All the 'negatives' must be anticipated in advance. Typical of the negative responses are: "We are going to pay employees to leave, when we do not have enough money to pay the employees we have?" or "We are going to lose all our most experienced staff, and replace them with untried, inexperienced staff!"

*These and other reactions must be anticipated if the plan is to be adapted. Each can be dealt with when explained in context.*

**The Eligible Employee...** Many plans, which do not succeed, do so for the simple reason that the eligible employee's perception of the plan does not measure up to the employer's idea of a "meaningful benefit." If the plan benefit falls short of achieving the meaningful benefit status, or, is not properly presented, the plan will not only fail, but will create ill-will, and enormous additional cost to the employer. Only those who were leaving anyway will accept the plan. In fact, some that were going to leave will not leave hoping for a better plan in the next year or two! Historically, such plans have been offered in the past and continue to negatively influence employers' opinions of buy-out plans. The comment, "We tried it once and it did not work," is often heard when the idea is reintroduced to employers. It "did not work" because it was doomed to fail from the beginning due to its perception by the employees! The idea was good, but the plan or its implementation failed. A properly

planned, well-executed incentive will work!

**COMPLIANCE WITH TAX LAW...** Major issue- Incentive plans, which are not in compliance with both IRS and Department of Labor regulations, can be the source of major liability for the employer. In this regard, the teacher's associations at the state and national level have issued, in writing, stringent warnings to their membership and employers that serious consequences can occur if an incentive plan is not in compliance with such regulations. Attorneys and CPA firms representing the association, both at the state and national level have provided their opinions, which are deemed to be correct, regarding the tax treatment of specific plans. Extreme care must be taken to insure adherence to the regulations.

**LIABILITY INSURANCE ...** A very important safety measures. The major decision to be made by the eligible employees is certainly one requiring preparation, thought and counseling. The employer must provide the resources that make this process easier for those that are eligible. If, a third-party counseling and administration firm is utilized, it is of the utmost importance that an additional safeguard is in place to protect the employer in the event of errors and omissions which could occur in the process, despite careful planning and execution

Substantial Errors and Omission liability coverage is a 'must'. This coverage should be verified in advance, with E&O coverage provided by the third-party firm. Such coverage, the limits of which should be substantial, provides an additional layer of protection that could save the employer from substantial claims due to errors or omissions, which occur in the process.

back to top

## VI. THIRD PARTY ADMINISTRATION

**SELF-ADMINISTERED VERSUS THIRD-PARTY ADMINISTRATION...** It is reasonable to consider designing and implementing an incentive plan without the services of a professional third party implementation. A careful understanding of the preceding material demonstrates the many facets of offering an incentive plan. It simply makes more sense to let the experts design and implement the incentive plan. Every aspect of the entire process has been tested and fine-tuned.

A stream of income is undoubtedly more meaningful than a lump-sum incentive. Income to a retiree must be added to all other sources of post retirement assets. A lump sum is invariably looked upon as something to spend. Thus, counseling becomes the single most important aspect of a plan offering. A professional third party counseling program is far more effective than peer-to-peer counseling. Employees are reluctant to discuss personal financial matters with fellow employees, especially their superiors.

The main reason for considering self-administered plans is to reduce costs. An incentive plan is only as successful as the attainment of the objectives established. Self-administered plans still have costs. To name a few:

The cost of the plan documentation and the legal fees associated with it.

The cost of the actual plan implementation.

The time set aside for counseling and preparation of resource material.

The personnel and the associated cost of post plan administration.

The additional potential liability incurred when counseling employees for major career changes.

The major costs if the objectives are not attained.

Third party implementation allows the employer to continue to engage in the education business rather than the retirement counseling business.

There are substantial off-set savings in the third party approach. Prepared and tested documents are available. Expert retirement counseling and financial analysis capabilities are in place. In depth and finely tuned projections reduce the planning stage substantially, and create the confidence to accept or reject a proposed plan. The planning stage alone can be a costly procedure in time and effort.

The third party should be thoroughly checked out. References from employer clients should be sought. Third party consultants should not be in the business of selling insurance products. The objective for the employer is not to sell insurance plans to the employee, but to achieve the objective set forth. Plans which require or urge employees to buy an insurance policy are suspect. Future income streams for the employee should not be based upon uncertain interest projections used in many life insurance plans.

[back to top](#)

## VII. TOTAL PLAN COSTS

There are many cost factors in a buy-out plan. The most obvious is the actual cost of the incentive offered. This cost represents the total "outlay" for the benefits only. In addition to this obvious cost are what could be referred to as "hidden costs". These costs are associated with the planning, pre-plan administration, legal costs in preparing contractual documents, beneficiary documents, waiver and release documents, the cost of time for persons involved in any part of the total process; including records management, review of eligibility, preparation of time lines, notices to eligible persons, preparation of general meetings, printing and related costs, assignment of personnel to answer questions which may arise, etc. The counseling process alone, by far the most important element in successful plan implementation, requires hundreds of hours spent one-on-one with eligible persons, represents the most costly of the "hidden costs".

Counseling, referred to several times in this brochure, deserves special attention when considering costs. We have determined by comparing similar data in plans implemented with and without counseling that the individual counseling increases total participation 40 to 70%. Thus, when the "break even" level of participation is achieved, all additional participants reflect 100% cost reduction as reflected in the

actual plan results.

The question of counseling raises other issues: Whom can best provide the counseling phase of the plan? It is not only our opinion, but the combined opinions of dozens of districts that professional third party counseling is far more effective than counseling provided by in-house personnel. The reasons as determined by actual experience are easily understood. "In-house" counselors, because they are 'fellow employees' often do not receive personal and private information which may be critical to the eligible person's decision to accept or reject the offer. This information can vary from financial issues to health and even personality problems they are experiencing. In addition, our experience tells us that in-house counselors must walk a narrow line to prevent them from losing their governmental immunity in making recommendations to employees in areas foreign to their training and authority. Third party counselors covered by substantial errors and omission insurance coverage can and do deal with areas which employer counselors, by the very nature of their positions cannot and do not explore.

The actual cost of third party implementation cannot be quantified on the basis of the benefits alone. For example, if the total cost of the benefits is \$1,000,000, without addressing the present value of money expended, the cost, including all of the administrative, counseling, documentation, enrollment, follow up would be approximately 103% of the total costs! In short, less than the actual outlays of dollars as benefits are paid. Considering present values and depending on the structure of the payments in terms of years, the third party administered plan could cost 2% to 3% more than the cost of a self-administered program, but would achieve 50% to 70% more favorable results.

If, in considering plan costs, and factoring in all of the additional costs to be borne in the self administered (in-house) plan, especially the increased participation, the third party plan becomes the obvious course to follow.

In discussing costs, I have only dealt with the plan implementation process. More precisely, the offer and enrollment of participants. The administration after implementation adds substantially to the costs. Because successful plans provide income for several years into the future, there must be an on-going provision to handle all of the many issues, which arise during the payment period, promised by the employer. Invariably issues arise from the simple: change of name and or address, late checks, lost checks; to the more involved: death claims, beneficiary disputes, legal and tax issues, fraudulently cashed checks, and tax issues with attorneys and accountants. Thus, when these additional costs are considered, third party plans are far more cost efficient.

This last phase, post-plan administration must be in place and must be able to provide prompt, knowledgeable solutions to any and all problems, which arise. It is often overlooked in planning buy-outs, and can be an area subject to serious liability problems for the employer.

Successful plans require detailed planning. All of the foregoing areas must be addressed in advance. It should be noted that plan costs of third party plans might vary depending upon investment rates at the time of the first full plan payment. Plan payments are "spread" so that third party implemented plans may be spread over several years' budgets.

**[back to top](#)**





**EPC specializes** in developing, implementing and administering early buy-out **incentive plans** for schools, colleges, universities, and municipalities.

The Early Buy-Out Incentive Plan Experts

1.800.747.

Home

Contact Us

Feasibility Study

E-Newsletter

Effective Plans

Early Buy-Out Plans

News Articles

Client List

Teacher Recruitment

Related Links

Retirement Planning

## "Structuring an Effective Early Buy-Out Severance Plan"

Copyright © 1990 - 2004 EPC

The primary reasons for implementing an early buy-out plan are to reduce salary and fringe costs, which are 80% or more of the budget, and to take advantage of a favorable recruiting environment. A properly structured plan will increase top of scale staff exits by as much as 500% to 1200%, attracting early exits of top of scale staff that might not have left for 3, 5, 10, 15 or more years. There are many details to address to assure success of a plan, and it must be in compliance with legal and tax codes.

The consulting firm of Educators Preferred Corporation has 15 years of experience specializing in the implementation of early buy-out plans for school districts, colleges, and public libraries. EPC has assisted over 250 districts in the implementation of successful plans, and they bring to the presentation their expertise in structuring an effective incentive plan.

With school financing a major issue today, cost containment tools are a must. Carefully structured incentive plans can be effective and dynamic, helping to avoid program and staff cuts.

We have combined our experience of eight years specializing in this field with the experience of superintendents, business managers, attorneys, and accountants throughout the state.

The following is a brief list of the "do's and don'ts" we have compiled while working with school districts that have implemented successful plans.

To help assure effective results from an incentive plan...

### Don't:

- ☐ Implement a plan without a thorough pre-plan analysis, as a plan may not be viable for your district
- ☐ Implement a plan without securing a release and waiver of claims from participants that has been reviewed by legal counsel
- ☐ Imbed the plan in the collective bargaining agreement
- ☐ Offer a benefit that will only appeal to those exiting in the next three years

- Proceed without knowing tax consequences for both the employee and the employer
- Offer a plan that is age discriminatory, whereby the older the participant is, the less the benefit
- Look at only the next one to five years, as this is too short term
- Conduct the window period activities yourself due to liability and effectiveness issues
- Offer a lump sum, as it is perceived as a bonus not an incentive

#### Do:

- List the objectives of the plan: budget reduction, ideal number of opters, staff and program changes
- Carefully examine the demographic profile of the staff
- Project the analysis of the plan forward for ten years
- Adhere to strict Age Discrimination requirements - get proper legal review
- Understand tax consequences - get accounting review
- Include FICA and purchase of pension time costs when analyzing the plan
- Subtract out normal retirements from projected results
- Review the plan with the collective bargaining unit before final Board approval
- Offer the plan on a one-time basis only
- Secure a release and waiver of claims (reviewed by legal counsel) from participants
- Prepare a Press Release before Board approval
- Talk to other districts that have implemented successful plans
- Offer comprehensive employee counseling - this will increase participation by 500% or more
- Have a recruiting and replacement plan in place as up to 20% (or more) of staff may elect the plan

When a plan is correctly implemented and everyone understands the plan's structure and objectives, successful results will follow.

#### Pre Plan Issues

These are areas to address when determining if a plan is viable for your district, and the budget reduction that can be projected as a result of implementing a plan.

- Plan Objectives
- cost containment tool
- staff revitalization
- program changes
- promote staff
- maximum and minimum number of participants
- Plan Structure

- eligibility: top of scale versus eligible to retire at state level
- benefit: lump sum versus stream of income
- - 8 year, 10 year, lifetime
- - purchase of pension time
- - alternate exit dates
- - life insurance, with or without incidence of ownership
- eligible groups: teachers, administrators, support
- coordination with current contract severance benefits
- - offer plan in lieu of contract benefits
- - offer plan in addition to contract benefits
- - integrate with contract benefits
- Pre-Plan Evaluation
- examine eligible pool
- examine top of scale salaries and pay trends for next ten years
- examine hiring practices and the resulting entry level salaries
- examine pay trends for next ten years
- examine projected number of opters (need a model)
- subtract out those that would have exited anyway, without a plan
- economic analysis: ten years, with selected assumptions

### Tax and Accounting Issues:

#### Various approaches to tax issues

Aggressive - take a chance?

Conservative - based on solid tax code.

Employer's responsibility / employee's responsibility W-2 reporting

1099-R reporting 941 reporting

Review of plan by tax counsel

### Third Party Expertise

- Legal counsel - tax counsel
- Plan administrator - experience and track record
- Liability coverage
- Avoid insurance "solicitors"
- Certified counselors

### Recruiting and Replacement Plan

- Be prepared for "more than normal" activity (up to 20% of staff may opt)
- Remain within guidelines of hiring step 1 - 3 consider re-assignments, consolidation, and promotions

### Plan Implementation

- Administration Review: with Board of Education, with the bargaining unit(s)
- window period activities
- memo's, flyers, other communications
- confidential employee packages
- general meetings
- confidential employee counseling + spouses, CPA, other decision makers
- guidance throughout the process

### Areas of employee concern that must be fully addressed:

- plan benefits
- pre versus post retirement income
- insurances: health / life / dental / vision
- Social Security
- tax issues
- beneficiary issues
- time lines
- post retirement activities
- career changes

### Demographic and Staffing Results of an Effective Plan

#### *Results of recent study:*

- 25% of those opting were age 38 to 52
- 28% of those opting were age 53 to 56
- 28% of those opting were age 57 to 60
- 15% of those opting were age 60 to 62
- 4% of those opting were age 63 or older

### Why people opt for plans (it's not just for retirement).

- To pursue a new career. Education is no longer challenging or interesting.
- To be with their family, children during formative years, or being with parents.
- To return to school; obtain an additional degree or a degree in a new field.
- To retire early or as planned, with a more financially comfortable retirement.
- Too much stress in education.
- To pursue a position at another district or college.
- To relocate out of state.
- To join a retired spouse.

- Health difficulties.
- Current position may be or has been eliminated.

This information contained within is proprietary to EPC. Please contact EPC before copying or distributing. As EPC is not tax or legal counsel, we recommend that any questions and all tax and legal decisions be reviewed by district advisors.